

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

<b>Fact Finding Investigation of</b>	)	
<b>Potential Manipulation of</b>	)	<b>Docket No. PA02-2-000</b>
<b>Electric and Natural Gas Prices</b>	)	

**Bonneville Power Administration's Response to the  
Federal Energy Regulatory Commission  
Request for Admissions to Sellers in the  
California Independent System Operator and California Power Exchange**

Request A.     1.     Admit or Deny: The company engaged in activity referred to in the Enron memoranda as "Export of California Power" during the period 2000-2001, in which the company buys power at the Cal PX to export outside of California in order to take advantage of the price spread between California markets (which were capped) and uncapped markets outside California.

2.     If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all purchases and sales of energy and/or ancillary services, counter-parties to the transactions, prices and volumes, delivery points, and corresponding Cal ISO schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response:     1. Deny. BPA denies that it engaged in the trading strategy referred to as "Export of California Power". This strategy involved purchasing energy from the California PX and selling it outside of California to take advantage of the price spread between the capped California market and uncapped markets outside of California. To determine whether or not BPA engaged in this strategy, BPA examined data over three time horizons: Day Ahead PX purchases compared to Day Ahead Northwest sales, Day of PX purchases compared to Day of Northwest Sales and Day Ahead PX purchases compared to Real-Time Northwest sales.

BPA conducted an investigation to confirm that it did not engage in this strategy. BPA Staff obtained and reviewed the following records:

1. All Hourly Cal PX and Northwest Transactions by point of delivery for calendar Years 2000 – 2001. The data was pulled from several different sources, including BPA's Scheduling Computer System (SCS) and the Cal PX Trading Platform database.

2. BPA staff also reviewed the scheduler logs and the real time traders' logs over the period in question.

***1) Day Ahead PX purchases compared to Day Ahead Northwest sales***

With respect to these transactions, we were looking for heavy and light load blocks purchased in the California Day Ahead PX market, which were subsequently sold as heavy and light load blocks in the Pacific Northwest Day Ahead market. Of the 17,544 hours examined, we identified a single transaction (50 MW HLH block) in which Bonneville concurrently bought and sold the same Day Ahead product. This was a purchase at NOB from a Northwest party and a sale at Big Eddy to the same party. This transaction, however, was a resale of NOB transmission intended to recover BPA's sunk transmission costs.

***2) Day of PX purchases compared to Real Time Northwest sales***

With respect to these transactions, we examined the data and looked for hours during which BPA concurrently purchased in the California Day of PX market and sold to the Pacific Northwest in Real Time. Of the 17,544 hours examined, we identified 18 hourly transactions, which occurred over the course of 5 trading hours on November 22 and November 26, 2000. During this period, BPA purchased a total of 193 MWh out of the Day of PX market and sold 4,125 MWh in the Northwest Real Time market. On these dates, BPA was primarily selling energy to achieve discharge levels at Grand Coulee and Chief Joseph dams as directed by BPA's operations group. BPA's best assessment of the conditions at the time indicates that BPA made small additional purchases, most likely from adjustment bids submitted to the PX Day of market. The data do not point to a clear pattern of purchasing energy from the California PX Day of market for the specific purpose of exporting it into the Northwest Real Time market to take advantage of the price differential between capped markets in California and uncapped markets in the Pacific Northwest.

***3) Day Ahead PX purchases compared to Real Time Northwest sales***

BPA has identified 54 hourly transactions over 30 hours covering 15 days in which we bought out of the Day Ahead PX market and sold into the Pacific Northwest Real Time market on the same hour. We have analyzed the transactions under question and have determined that at the time, BPA was both an active buyer and seller of energy. BPA buys power for three primary reasons: to meet deficit conditions, to meet Federal Columbia River Power System operational directives, and to store or shape, e.g. load factoring. In Real Time, BPA must frequently react to changes in system conditions to meet operational objectives. As a result, BPA periodically finds itself selling during hours for which it has also been a buyer in the Day Ahead market. Moreover, BPA often receives requests to sell small amounts of power in Real Time from a variety of counterparties throughout the WSCC, regardless of whether we are in a net

buying or selling mode at the time. In essence, there was nothing unusual about the way in which BPA was operating its system at the time. The data do not point to a clear pattern of purchasing energy from the California PX Day Ahead market for the specific purpose of exporting it into the Northwest Real Time market to take advantage of the price differential between capped markets in California and uncapped markets in the Pacific Northwest.

Furthermore, in the transactions analyzed in sections 2 and 3 above, all sales to the Northwest were at or below the California price cap of \$250, with the exception of two hourly sales to a Northwest-based marketer that were priced at \$275.00.

The analysis did not reveal any instance where BPA engaged in this strategy for the purpose of arbitraging the difference between the market prices.

## 2. Not Applicable

Request B. 1. Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “Non-Firm Export” during the period 2000-2001, in which the company gets a counterflow (scheduling energy in the opposite direction of a constraint) congestion payment from the Cal ISO by scheduling non-firm energy from a point in California to a control area outside of California, and cutting the non-firm energy after it receives such payment.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, congestion payments received, corresponding Cal ISO schedules, counter parties and delivery points. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA denies that it participated in the strategy known as “Non-Firm Export.” BPA scheduling records indicate that BPA never scheduled a non-firm export from a point in California to a point outside of California during the course of the 2000 – 2001 time period. Furthermore, BPA did not receive any counterflow congestion payments from the California ISO. To confirm this, BPA examined its invoices from the Cal ISO, and the invoices do not reflect any instance where BPA received a counterflow congestion payment from the Cal ISO.

## 2. Not Applicable

Request C. 1. Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “Death Star” during the period 2000-2001, in which the company

schedules energy in the opposite direction of congestion (counterflow), but no energy is actually put onto the grid or taken off the grid. This allows the company to receive congestion payments from the Cal ISO.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, all transmission and energy schedules, the counter parties, all congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA denies that it participated in the strategy known as “Death Star.” BPA could not have engaged in this strategy because BPA did not have load in California for which it acted as a Scheduling Coordinator. (SC) The Death Star strategy required a wholesale participant to be able to simultaneously and artificially inc and dec load in two nodes within the ISO controlled grid. Without load for which BPA acted as an SC inside California, it would have been impossible for BPA to execute this strategy.

2. Not Applicable

Request D: 1. Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “Load Shift” during the period 2000-2001. This variant of “relieving congestion” involves submitting artificial schedules in order to receive inter-zonal congestion payments. The appearance of congestion is created by deliberately over-scheduling load in one zone (*e.g.*, SP-15); and shifting load from congested zone to the less congested zone, thereby earning congestion payments for reducing congestion.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, all schedules of load by zone, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. In order to take advantage of the “Load Shift” strategy or some variant thereof, it is necessary to have load within the ISO Control Area. BPA does not act as scheduling coordinator for any load in California and therefore is not in a position to engage in a transaction whereby it could deliberately overschedule load in a particular zone in the ISO Control Area. As with the “Death Star” strategy cited above, it would have been impossible for BPA to execute this strategy without acting as an SC for load inside California.

2. Not Applicable

Request E      1.      Admit or Deny: The company engaged in activity referred to in the Enron memoranda as “Get Shorty” during the period 2000-2001, also known as “paper trading” of ancillary services in which it : (i) sells ancillary services in the Day-ahead market; and (ii) the next day, in the real-time market, the company “zeros out” the ancillary services by canceling the commitment to sell and buying ancillary services in the real-time market to cover its position. The phrase “paper trading” is used because the seller does not actually have the ancillary services to sell.

2.      If you so admit, provide complete details as to all transactions your company engaged in as part of this trading strategy, including the dates of all transactions; prices and volumes for sales of ancillary services in the Day-ahead market; the cancellation of such sales, prices and volumes for the purchases of ancillary services in the real-time market to cover the company’s position; and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response:      1. Deny. BPA denies that it engaged in the trading strategy referred to as “Get Shorty”. This strategy, also known as “paper trading” of ancillary services, involved selling ancillary services in the Day Ahead market, and then, the next day, zeroing out the Day Ahead ancillary services commitment and buying back the ancillary services in the Real Time market to cover the position.

To determine whether or not BPA engaged in this strategy, we examined Day Ahead ancillary service products sold to the Cal ISO between January 1, 2000 and December 31, 2001. However, BPA was not involved in the California ancillary services market after September 20, 2000 when the Cal ISO switched to a ten-minute market. Following this change, BPA stopped selling ancillary services to the Cal ISO because BPA’s Transmission Business Line would not accept mid-hour changes to transmission schedules.

The data was pulled from BPA’s SCP System. Because the activities referenced by FERC in question E.1 involved real-time changes to day-ahead schedules, the day-ahead ancillary service data was examined for real-time changes to the final day-ahead schedule.

BPA identified 224 changes, all of which appear to be the result of data entry error. The types of changes that occurred are listed below.

- 1) Changes that were made today-ahead schedules in preschedule to correct an erroneously entered value.

- 2) Changes that were made in real-time where the day-ahead schedule was changed from the prescheduled value and then changed back to the original prescheduled value. The net result of these changes was no adjustment to the day-ahead values.
- 3) Changes that were made after-the-fact where the day-ahead schedule values were adjusted upward. It appears that these were corrections to data entry errors that were discovered either upon checkout between control areas or upon receipt of settlement statements from the Cal ISO. It is important to note that all of these changes were *increases* in the day-ahead schedules.
- 4) There was one instance where a day-ahead 5 MW spinning reserve capacity sale was changed to 0 MW on real-time. On the same hour 4 MW of spinning reserve energy (which was associated with the 5 MW spinning reserve capacity) was called on and delivered to the Cal ISO. When the spinning reserve energy was called on by the Cal ISO, the real-time load scheduler correctly entered the 4 MW into the energy account and erroneously removed the 5 MW from the capacity account.

Aside from the data entry errors listed above, we found no incidences where alterations had been made to day-ahead schedules on real-time or otherwise. After reviewing the 3,900 data points, we found no evidence that BPA sold ancillary services in the day-ahead market and the next day, in the real-time market, zeroed out those day-ahead schedules. BPA also feels compelled to point out that given the large capacity of the Federal Columbia River Power System, the “paper trading” of ancillary services was an activity for which we would have neither the need or the inclination to participate in.

## 2. Not Applicable

- Request F.
1. Admit or Deny: The Company engaged in activity referred to in the Enron memoranda as “Wheel Out” during the period 2000-2001. Knowing that an intertie is completely constrained, (*i.e.*, its capacity is set at zero), or that a line is out of service, the company schedules a transmission flow over the facility. The company knows that the schedule will be cut and it will receive a congestion payment without actually having to send energy over the facility.
  2. If you so admit, provide complete details as to all transactions your company engaged in as part of this trading strategy, including the dates of all transactions corresponding schedules, counter parties, and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA denies that it participated in the strategy known as “Wheel Out.” BPA scheduling and billing records indicate that BPA did not receive any counterflow congestion payments from the California ISO.

2. Not Applicable

Request G. 1. Admit or Deny: The Company engaged in activity referred to in the Enron memoranda as “Fat Boy” during the period 2000-2001 in which the company artificially increases load on the schedule it submits to the Cal ISO with a corresponding amount of generation. The company then dispatches the generation it schedules, which is in excess of its actual load. Scheduling Coordinators that serve load in California may be able to use this activity to include the generation of other sellers.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions corresponding schedules, payments from the ISO for excess generation (including both price and volumes) received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA denies that it participated in the strategy known as “Fat Boy”. In order to take advantage of this strategy or some variant thereof, it is necessary to have load and to act as the Scheduling Coordinator for that load within the ISO Control Area or California. BPA does not have any load in California for which it acts as the Scheduling Coordinator and therefore is not in a position to engage in a transaction whereby it could artificially increase the load above actual load amounts.

2. Not Applicable

Request H. 1. Admit or Deny: The Company engaged in activity referred to in the Enron memoranda as “Ricochet” also known as “megawatt laundering” during the period 2000-2001, in which the company: (i) buys energy from the Cal PX and exports to another entity, which charges a small fee; and (ii) the first company resells the energy back to the Cal ISO in the real-time market.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, names of counter parties and whether they were affiliates, the fees charged, prices and volumes for energy that was bought and then resold. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. The “ricochet” strategy requires the explicit cooperation of two counterparties, a negotiated fee for the service, and the understanding by both parties of the nature and intent of the strategy. The strategy also involved moving power out of the Cal PX and reselling to the Cal ISO. BPA denies that it engaged in a “ricochet” strategy.

BPA conducted a thorough review of numerous sources of transaction data and identified 33 hourly transactions over 14 days in which BPA was involved in simultaneous buy/sell transactions at COB or NOB with the same counterparty in the same hour. BPA carefully reviewed and analyzed the taped conversations of the transactions in question. We spoke in depth with current and former traders to ascertain whether BPA participated in “ricochet” strategies. They all indicated that BPA did not participate in such a strategy.

Based on BPA’s review, we found no evidence of BPA engaging in a “ricochet” strategy. None of the transactions under review involved the Cal PX, an essential point, because the “ricochet” strategy involved purchasing from the Cal PX and then reselling to the ISO. BPA is satisfied that the evidence does not support BPA’s participation in a “ricochet” transaction. However, BPA trades with many counterparties throughout the WSCC and the possibility exists that BPA was unknowingly involved in facilitating “ricochet” transactions.

While none of the analyzed transactions fit within the definition of a “ricochet” as described in the FERC Request, we have provided a further summation of the transactions below. They fell into three categories:

- 1) Counterparties asked BPA to receive energy at COB or NOB and redeliver the energy back to them at the opposite node. When we had the available transmission to move the energy, we would process the request for a fee. A review of the tapes does not indicate that the transactions were part of a “ricochet” strategy by the counterparty.
- 2) Two of the transactions involved a counterparty approaching BPA, indicating that they had experienced scheduling and/or tagging errors, and asking BPA to receive energy and deliver it back to them on the AC intertie. BPA agreed to provide the service for a fee, which was actually less than the relevant transmission cost. The tapes do not indicate that these transactions were part of a “ricochet” strategy by the counterparty.
- 3) In February and March 2001, BPA was purchasing energy for system loads and at the same time purchased energy on behalf of CERS because other counterparties were not willing to transact with them.

The total value to BPA from all of these transactions was only \$21,509.



2. Not Applicable

Request I: 1. Admit or Deny: The Company engaged in activity referred to in the Enron memoranda as “Selling Non-firm Energy as Firm Energy” during the period 2000-2001 in which the company sells or resells what is actually non-firm energy to the Cal PX, but claims that it is “firm” energy. This allows the company to receive payment from the Cal ISO for ancillary services that it claims to be providing, but does not in fact provide.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, prices and volumes and corresponding schedules. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA only sells firm energy from the Federal Columbia River Power System. In no case has BPA purchased non-firm or unit-contingent energy and subsequently scheduled and resold it into the Cal PX as “firm” energy. Also see, response to B.1. above.

2. Not Applicable

Request J: 1. Admit or Deny: The Company engaged in activity referred to in the Enron memoranda as “Scheduling Energy to Collect Congestion Charge II” during the period 2000-2001 in which the company: (i) schedules a counterflow even though it does not have any available generation; (ii) in real time, the Cal ISO charges the company for each MW that it was short; and (iii) the company collects a congestion payment associated with the counterflow scheduled. This activity is profitable whenever the congestion payment is greater than the charge associated with the energy that was not delivered.

2. If you so admit, provide complete details as to all transactions your company engaged in as part of this activity, including the dates of all transactions, corresponding counter schedules, prices and volumes and congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.

Response: 1. Deny. BPA denies that it participated in the strategy known as “Scheduling Energy to Collect Congestion Charge II.” BPA scheduling records indicate that BPA did not receive any counterflow congestion payments from the California ISO.

2. Not Applicable

- Request K:
1. Admit or Deny: The company engaged in any activity during the period 2000-2001 that is a variant of any of the above-described activities or that is a variant of, or uses the activities known as, “inc-ing load” or “relieving congestion” as described above.
  2. If you so admit, provide a narrative description of each specific time in which the company engaged in such activity and provide complete details of those transactions, including the dates of the transactions, counter parties, prices and volumes bought or sold, corresponding schedules and any congestion payments received. Also, provide all documents that refer or relate to the activity described immediately above.
- Response: Deny. BPA is unaware of any transactions that it engaged in that are variants of the activities known as, “inc-ing load” or “relieving congestion”.

## **II. Request for Production of Documents**

- A. Provide copies of all communications or correspondence, including e-mail messages, instant messages, or telephone logs, between your company and any other company (including your affiliates or subsidiaries) with respect to all of the trading strategies discussed in the Enron memoranda (both the ten “representative trading strategies” as well as “in-ing load” and “relieving congestion”). This request encompasses all transactions conducted as part of such trading strategies engaged in by your company and the other company in the U.S. portion of the WSCC during the period 2000-2001.

Response: BPA is unaware of any documents that are responsive to this request.

- B. Provide copies of all material, including, but not limited to, opinion letters, memoranda, communications (including e-mails and telephone logs), or reports, that address or discuss your company’s knowledge of, awareness of, understanding of, or employment or use of any of the trading strategies discussed in the Enron memoranda, or similar trading strategies, in the U.S. portion of the WSCC during the period of 2000-2001. The scope of this request encompasses all material that address or discuss your company’s knowledge or awareness of other companies’ use of the trading strategies discussed in the Enron memoranda, or similar trading strategies, including, but not limited to: (i) offers by such other companies to join in the transactions related to such strategies, regardless of whether such offers were declined or accepted: and (ii) possible responses by your companies to other companies’ use of such trading strategies. To the extent that you wish to make a claim of privilege with respect to any responsive material, please provide an index of each of those materials, which includes the date of the

each individual document, its title, its recipient(s) and its sender(s), a summary of the contents of the document, and the basis of the claim of privilege.

Response: BPA is unaware of any documents that are responsive to this request.

### **III. Request for Other Information**

- A. On page 2 of the December 8, 2000, Enron memorandum, the authors allege that traders have learned to build in under scheduling of energy into their models and forecasts. State whether your company built under-scheduling into any of its models or forecasts during the period 2000-2001, and provide a narrative description of such activity. Provide copies of all such models or forecasts prepared by or relied upon by your company during the period 2000-2001 that had under-scheduling built into them.

Response: BPA does not have any models or forecasts that contain estimates of under-scheduling of load in California or within the WSCC generally.

- B. Refer to the discussion of the trading strategy described as “Ricochet” in the Enron memoranda. State whether your company purchased energy from, or sold energy to, any Enron company, including Portland General Electric Company, as part of a “Ricochet” (or megawatt laundering) transaction during the period 2000-2001. Provide complete details as to such transactions, including the dates of the transactions; the names, titles, and telephone numbers of the traders at your company who engaged in such transactions; the prices at which your company bought and sold such energy (on a per transaction basis); the volumes bought and sold (on a per transaction basis); delivery points; and all corresponding schedules.

Response: BPA is not aware of any transaction where BPA purchased or sold energy to Enron or an Enron affiliate as part of a “Ricochet” transaction.